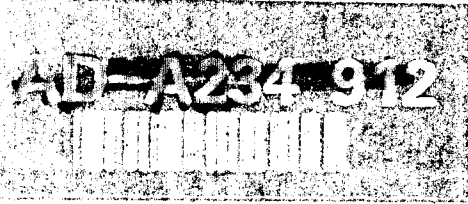


United States General Accounting Office

GAO

Report to the Assistant Secretary of the  
Air Force, Financial Management and  
Comptroller



January 1991

AD-A234-912

## FINANCIAL AUDIT

# Air Force's Base-Level Financial Systems Do Not Provide Reliable Information





United States  
General Accounting Office  
Washington, D.C. 20548

Accounting and Financial  
Management Division

B-234326

January 31, 1991

The Honorable Michael B. Donley  
Assistant Secretary of the Air Force,  
Financial Management and Comptroller

Dear Mr. Donley:

This report presents the results of our review of the Air Force's base-level financial management operations for fiscal years 1988 and 1989. It addresses weaknesses in internal controls and financial reporting within the bases and the related commands.

Base-level managers are responsible for millions in appropriations and accountable assets. The internal controls and accounting procedures, however, do not provide adequate and reliable financial information for effective management and reporting of these resources.

This report contains recommendations to you. We would appreciate receiving a written statement on the actions taken on our recommendations within 60 days.

We are sending copies of this report to the Secretary of Defense, the Secretary of the Air Force, and other interested parties. Please contact Gerald Thomas, Assistant Director, at (202) 275-9300 if you or your staff have any questions concerning the report.

Sincerely yours,

David M. Connor  
Director, Defense Financial Audits



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# Executive Summary

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## Purpose

Over the last several years, GAO has conducted a number of financial audits of major agencies to address concerns about the federal government's deteriorating fiscal condition and ineffective control over financial operations. A full-scale audit of an agency's financial statements provides an understanding of the problems associated with financial management and the required corrective actions.

GAO evaluated the Air Force's financial management operations and systems for fiscal years 1988 and 1989 and issued a comprehensive report on the results of the fiscal year 1988 audit, Air Force Does Not Effectively Account For Billions Of Dollars Of Resources (GAO/AFMD-90-23, February 23, 1990). As part of the 1988 and 1989 audits, GAO evaluated selected base-level systems of internal accounting controls at 17 air bases and assessed the accuracy of account balances for those base-level operations. This report details the results of that evaluation for the 2-year period.

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## Background

Air Force assets, such as land, buildings, supplies, and equipment, are generally located at individual bases. Base commanders are responsible for the effective, efficient, and economical use of funds and resources made available to their organizations. Bases use standardized accounting systems to record, process, and report financial transactions.

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## Results in Brief

Accounting errors and inaccurate financial reports pervaded the base-level accounting systems at the 17 bases where GAO conducted its tests. For fiscal years 1988 and 1989 combined, GAO identified over \$2.7 billion of adjustments necessary to correct errors in year-end, base-level trial balances. The bases had reported the inaccurate information to the major commands. The commands, in turn, had provided inaccurate data to the Air Force Accounting and Finance Center, which had prepared summary Air Force financial reports for submission to external parties, including the Department of Defense, the Office of Management and Budget, the Department of the Treasury, and the Congress.

Real property account balances were misstated because transactions were recorded in an inaccurate and untimely manner. Unauthorized and excessive issues of inventory and equipment diminished accountability for those items, and the failure to match personnel and payroll records created the opportunity for unauthorized payroll transactions.

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## GAO's Analysis

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### Financial System Generates Inaccurate Financial Information

The base-level General Accounting and Finance System routinely generated inaccurate financial information. The inaccuracies totaled over \$2.7 billion at the 17 bases where GAO conducted its tests in fiscal years 1988 and 1989. Neither the base accounting and finance offices nor the major commands performed analytical reviews of account balances which could have identified and corrected these problems or identified significant year-to-year variances which would have indicated potential problems for investigation. The following are examples of problems found at the commands and bases.

The inventory balances in the Air Force's new ammunition system were not reported in its accounting system, causing ammunition inventories to be understated by \$115.7 million at two bases in fiscal year 1989. The bases had not performed analyses to detect and correct these inventory errors. Consequently, inaccurate data were transmitted to the Air Force Accounting and Finance Center, which prepared inaccurate and unreliable summary financial reports for its managers and other external users.

In fiscal year 1989, GAO analysis of base reports to one major command revealed undetected and uncorrected errors which officials attributed to improper accounting practices and inadequately trained personnel. One base reported a negative balance of \$52 million in its inventory on hand account. GAO analysis of the underlying account documentation revealed that actual inventory on hand equaled \$376 million, requiring a \$428 million adjustment to correct the account balance.

After GAO advised officials of inconsistencies in the original data submitted, bases under another major command submitted \$578 million in corrections to their original trial balance data for fiscal year 1989. For example, one base reported a negative balance of \$46.6 million in its expense accounts but changed the balance to a positive \$312.5 million after GAO's inquiry.

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### Real Property Balances Were Misstated

Air Force bases did not report accurate real property account balances because they recorded construction in progress incorrectly and did not process real property transactions in a timely manner. One base had not removed the cost of completed construction from the construction in

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progress account for 15 years. As a result, real property assets were overstated by \$283 million. Nine of 16 bases<sup>1</sup> GAO tested did not report real property balances accurately.

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### Inventory Receipts and Equipment Issues Not Controlled

Required discrepancy reports were not always prepared and resolved when quantities of supplies received did not match amounts ordered. From a review of 157 test cases at 14 bases, GAO found 45 instances in which bases did not produce required discrepancy reports. If these reports are not prepared, bases may have to pay for items which are not received. For example, one base paid for a shipment which was short 55 items valued at \$3,431. Because a report of discrepancy was not processed in a timely manner, the base was denied credit for the 55 items.

GAO also found that base personnel issued equipment to unauthorized persons in 103 of 523 cases sampled. Furthermore, GAO found 35 instances where equipment was issued in excess of authorized amounts. Issuing equipment to unauthorized personnel and in excessive quantities diminishes control over the items.

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### Payroll Files Not Compared to Personnel Files

Four bases did not compare master payroll files with master personnel records, as required by Air Force regulations, to ensure that amounts paid were appropriate and accurate. At one base, a match performed by the payroll department revealed 106 cases in which employees' names on payroll records were not on personnel records. During busy periods, employment records had been sent directly to the payroll office thereby bypassing the personnel office and circumventing a key internal control. While no irregularities were discovered, the lack of effective controls created an environment for potential fraud or improper payments.

At another base, a pay record match performed by the civilian personnel and payroll offices at GAO's request revealed that one person was being overpaid. The base took action to recover a \$5,700 salary overpayment. Continued failure to match personnel and payroll records could allow payroll errors to go undetected.

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<sup>1</sup>Not every test was performed at each of the 17 bases visited because of time constraints and because some tests were not applicable to every base.

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## Recommendations

GAO recommends that the Assistant Secretary of the Air Force, Financial Management and Comptroller, ensure that (1) accounting and finance personnel are trained to detect, analyze, and correct erroneous account balances and account analyses are performed routinely, (2) the value of inventory in the combat ammunition system is reported in the general ledger, (3) construction in progress is recorded consistently and accurately, (4) reports of discrepancy are produced and resolved, (5) equipment is issued only to authorized personnel and in authorized quantities, and (6) bases compare and reconcile master payroll files with master personnel records at least monthly. Recommendations regarding problems found only at specific air bases have been made in management letters to base commanders.

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## Agency Comments

Air Force officials concurred with the principal findings in this report. The officials stated that an automatic interface between the Combat Ammunition System and the general ledger system was developed subsequent to GAO's review which should correct the problem GAO noted with ammunition inventory balances.

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## Abbreviations

AFB	Air Force base
DOD	Department of Defense
GAFS	General Accounting and Finance System
GAO	General Accounting Office
OMB	Office of Management and Budget
USAFE	U.S. Air Forces Europe





# Introduction

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As part of our examinations of the U.S. Air Force's consolidated financial statements for fiscal year 1988 and Treasury Reports for fiscal year 1989, we evaluated significant internal accounting controls and performed audit tests over a 2-year period to assess the accuracy of account balances for base-level operations at 17 bases. This report presents our evaluation of internal controls over base-level operations. Results of our evaluation of overall Air Force financial operations for fiscal year 1988 were reported in Financial Audit: Air Force Does Not Effectively Account for Billions of Dollars of Resources (GAO/AFMD-90-23, February 23, 1990).

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## Base-Level Operations

Base-level operations are conducted at over 130 air bases throughout the world. These operations are controlled by various major commands, including the Air Force Tactical, Strategic, and Air Training Commands; the Pacific Air Forces; and the U.S. Air Forces in Europe (USAFE). The bases under these commands use the General Accounting and Finance System (GAFS) to process financial transactions. GAFS applies to all persons and organizations performing base-level accounting and finance functions.

Air Force base commanders are responsible for the effective, efficient, and economical use of the resources made available to their organizations. Although there are varying degrees of centralization and authority, base commanders are directly responsible for managing the resources provided to them.

The base comptroller is responsible for financial management activities, including budgeting and accounting. The accounting functions are usually handled through an accounting and finance office responsible for making payments, collecting revenues, and recording transactions into the accounting and financial records for all organizations on base. The day-to-day costs of running most bases are paid from a number of appropriations, including operation and maintenance, military personnel, family housing, and other procurement. These funds are budgeted and appropriated yearly. They are accounted for in the base general funds general ledger which the accounting and finance office maintains.

Additionally, several revolving stock fund<sup>1</sup> divisions operate at base level. At the time of our audit, the six stock fund divisions were (1) Commissary, (2) General Support, (3) Systems Support, (4) Fuels, (5) Medical/Dental, and (6) Air Force Academy Cadet Store. Base-level organizations buy goods from the stock fund divisions, which in turn acquire replacement items. The stock fund consists of unexpended cash balances in Treasury and the actual inventories of goods that are either on hand or in transit.

General ledgers are maintained for each division of the Air Force stock fund. Each base-level accounting and finance office submits monthly financial reports to the stock fund manager showing results of operations for each division. Also, trial balance reports are transmitted monthly from each base to the Air Force Accounting and Finance Center in Denver, Colorado. The financial reports are used to determine inventory levels and cash balances available to buy more goods.

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## **Objectives, Scope, and Methodology**

The objectives of our review were to evaluate selected base-level systems of internal accounting controls and determine the accuracy of account balances for base-level operations. Systems of base-level internal accounting controls include not only administrative control over funds, but also accountability for assets, recognition of liabilities, and accounting for operations. Specifically, we tested events, transactions, and account balances to (1) substantiate their accuracy, completeness, and propriety, (2) determine the extent to which account balances were misstated, and (3) determine the extent to which resources were accounted for and properly controlled.

To evaluate the internal accounting controls of base-level activities, we applied GAO's internal control evaluation methodology. First, we reviewed and described Air Force internal controls over base-level accounting activities. We tested key internal control techniques to determine if the controls were operating as intended. Additionally, we performed substantive audit tests to simultaneously determine the validity and propriety of accounting transactions and account balances. We also reviewed the Air Force reports on its reviews of internal accounting and administrative controls in fiscal years 1988 and 1989, which were performed as part of the overall Department of Defense (DOD) reviews

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<sup>1</sup>Stock funds are working capital funds used to finance the acquisition of equipment and expendable materials.

under the Federal Managers' Financial Integrity Act of 1982 (Public Law 97-255).

To accomplish these objectives, we tested transactions and account balances at the following Air Force bases (AFB):

- Andrews AFB, Maryland;
- Carswell AFB, Texas;
- Griffiss AFB, New York;
- Hickam AFB, Hawaii;
- Homestead AFB, Florida;
- Kadena Air Base, Japan;
- Lackland AFB, Texas;
- Lakenheath Air Base, England;
- Langley AFB, Virginia;
- MacDill AFB, Florida;
- Nellis AFB, Nevada;
- Offutt AFB, Nebraska;
- Ramstein Air Base, West Germany;<sup>2</sup>
- Randolph AFB, Texas;
- Sembach Air Base, West Germany;<sup>2</sup>
- Upper Heyford Air Base, England; and
- Wurtsmith AFB, Michigan.

In addition to our work at the 17 air bases, we also performed field work at the following headquarters level offices:

- Air Force District of Washington, Bolling AFB, Washington, D.C.;
- Tactical Air Command Headquarters, Langley AFB, Virginia;
- Strategic Air Command Headquarters, Offutt AFB, Nebraska;
- Air Training Command Headquarters, Randolph AFB, Texas;
- United States Air Forces in Europe, Ramstein Air Base, West Germany;<sup>2</sup> and
- Pacific Air Forces, Hickam AFB, Hawaii.

We selected a judgmental sample of bases and headquarters whose annual operations and maintenance appropriations accounted for the most significant dollar values of resources and expenditures. Additionally, the bases were chosen to cover each of the five major operational commands. Not every test was performed at each of the 17 bases visited

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<sup>2</sup>Our review was completed before the unification of East Germany and West Germany.

because of time constraints and because some tests were not applicable to every base.<sup>3</sup>

Our audit was performed in accordance with generally accepted government auditing standards from October 1987 through February 1990. Responsible officials of the Air Force concurred with the principal findings presented in this report.

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<sup>3</sup>Later sections of this report describing test results indicate those instances in which tests were performed at fewer than 17 bases.

# Financial Management Systems Do Not Provide Reliable Information

The base-level General Accounting and Finance System routinely generated inaccurate and incomplete financial reports. The major commands, in turn, consolidated the incomplete and inaccurate base-level data and provided it to the Air Force Accounting and Finance Center to prepare summary financial data for the Air Force, the Department of Defense, the Office of Management and Budget (OMB), Treasury, and the Congress. These widespread accounting and financial reporting problems were identified in our February 1990 report. When accurate and reliable cost information is not maintained and reported, the basis for evaluating procurements, budget requests, and operating plans, is not complete. Furthermore, the financial information top management or the Congress uses to analyze Air Force trends is unreliable.

Accounting errors and inaccurate financial reports pervaded base-level accounting systems. At the 17 bases tested during fiscal years 1988 and 1989, we proposed adjustments to year-end trial balances totaling about \$2.7 billion. For example, at two bases, ammunition on-hand inventory balances were understated by \$115.7 million in the general ledger accounts, a condition not detected by base accounting personnel. Accounting personnel lacked the training necessary to identify, analyze, and correct erroneous account balances. Therefore, base-level accounting and finance offices allowed the incorrect and questionable account balances to remain in summary accounting reports provided to higher management.

## Base and Command Personnel Do Not Analyze Accounts for Inaccurate Data

The base-level financial systems regularly produced incorrect accounting data which were not researched to determine what problems existed and what corrective actions, if any, were needed. Air Force Regulation 177-101 requires that organizations responsible for maintaining accounting records should ensure that account balances are supported by detailed records, investigate unusual and unreasonable balances, and make necessary adjusting and correcting entries before the trial balances are prepared. Such routine analysis would help ensure that managers have accurate financial data on the resources for which they are accountable.

Our work at 5 major commands, the Air Force District of Washington, and 17 bases revealed widespread instances of inaccurate and incomplete financial data. Generally, specific classes of accounts will carry normal or predictable balances. Our review identified many accounts with abnormal balances which commands and bases did not identify or resolve as part of their normal operating processes. The following are

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examples of problems identified from our analysis of major command trial balances for U.S. Air Forces in Europe (USAFE) and Pacific Air Command headquarters, as well as problems at various bases.

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### **United States Air Forces Europe**

Our analysis at USAFE headquarters disclosed that a number of the command's 23 bases submitted inaccurate trial balances for September 30, 1989. Specifically, we noted the following:

- Nine bases submitted trial balances which contained control accounts unsupported by subsidiary accounts. We identified three asset accounts (equipment in use, real property, and materiel on hand) with control balances that totaled \$1.1 billion, whereas the subsidiary account balances were \$163.3 million less. These three accounts represented about 10 percent of the command's total assets as of September 30, 1989.
- Nine bases' trial balances contained accounts with abnormal balances totaling \$75.6 million, including a negative balance in an inventory account.
- Four bases reported zero balances in construction in progress accounts even though each had ongoing construction projects.

USAFE headquarters' staff eliminated all of the variances between the control and subsidiary accounts reported by the bases. However, in doing so, USAFE staff accepted the control balances reported by the bases as accurate and arbitrarily adjusted one or more of the subsidiary accounts. USAFE headquarters staff did not research and resolve the questionable balances and, therefore, had no assurance that the control account balances were correct.

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### **Pacific Air Command**

Seven bases reported erroneous and questionable account balances to Pacific Air Command Headquarters, which consolidated the information into a commandwide trial balance for use by the Air Force Accounting and Finance Center in preparing its year-end report to Treasury. Our review of the consolidated trial balance for fiscal year 1989 revealed

- accounts with abnormal balances, such as a credit or negative value in an inventory account, and
- accounts, such as accounts payable, with identical balances for fiscal years 1988 and 1989, where it is likely that the balances changed.

After we reported the inconsistencies in the account balances submitted by the bases, the Command made corrections totalling \$578 million. For

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example, one base had reported a total negative balance of \$46.6 million dollars in three of its expense accounts, but changed the balance to a positive \$312.5 million after our inquiry.

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**Homestead Air Force Base**

At the close of fiscal year 1989, Homestead AFB erroneously increased the base inventory account from \$196.2 million to \$329.9 million, resulting in an overstatement of approximately 68 percent. The accounting and finance office based this \$133.7 million adjustment on an inaccurate report from base supply. The inaccurate supply report and resulting erroneous inventory balance were corrected only after we brought the situation to the office's attention. Accounts control personnel had not analyzed this significant change for reasonableness before changing the account balance. Such an error would cause a comparison or trend analysis of Homestead AFB inventory levels to be unreliable and misleading.

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**Upper Heyford Air Base,  
England**

The base materially understated the value of its general fund assets and liabilities as of September 30, 1989. The base reported \$277.1 million in total assets and \$3.8 million in total liabilities. However, assets were understated by \$535.9 million and liabilities were understated by \$13.9 million as a result of improper and erroneous accounting entries and unclear guidance. Examples include the following:

- During the year-end closing, accounts control recorded a \$428.6 million adjustment to the inventory on hand (supply) account that resulted in the account having a negative (credit) balance of \$52.4 million. This account should have a positive (debit) balance. The chief of accounts control could not provide supporting documentation for the erroneous entry and determined that the account was credited by mistake. After we brought the error to management's attention, accounts control adjusted the account to reflect a positive balance of \$376.3 million.
- The construction in progress account was understated by \$29 million at year-end, with a reported year-end balance of only \$79,000. We found that USAFE's handbook contained procedures for crediting (decreasing) this account, but it did not contain procedures for debiting (increasing) the account. Because the handbook did not give guidance for debiting, and accounts control depended on that handbook, the account was not properly updated for ongoing construction.

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**Air Force District of  
Washington, Bolling and  
Andrews Air Force Bases**

At the end of fiscal year 1989, accounting personnel at Bolling AFB made posting errors to the general ledger that adjusted the balances of seven asset and liability accounts and totaled \$360 million. For example, the land, buildings, and other facilities accounts were understated by \$329.6 million. Undetected material understatements of this magnitude indicate careless accounting practices and a lack of adequate management oversight.

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**Hickam Air Force Base**

The base did not accurately report its assets and liabilities for fiscal year 1989. For example, the accounts receivable-other account was overstated by \$593,303 because it contained transactions that should have been posted to other accounts. Additionally, the base did not accrue a leave liability at the end of fiscal year 1989, as required. Air Force Regulation 177-104 requires bases to establish an accrual for annual leave liability as of September 30. According to the Deputy Accounting and Finance Officer, Civilian Payroll personnel were not aware of this requirement.

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**Significant Accounting  
Errors Attributed to  
Lack of Trained  
Personnel**

Staff at the European bases attributed significant undetected and/or uncorrected errors revealed by our analysis of account balances to poorly trained personnel and careless accounting practices. For example, in response to our inquiries about questionable balances, different European bases gave the following responses:

- "Past methods used to compute [account] balances included . . . picking figures from the air, making arbitrary adjustments, . . . in other words, [our] best guess."
- "[Personnel] have no formal training on this [trial balance] report." Also, "a workshop is needed . . . so personnel preparing the . . . trial balance can gain hands-on experience." The base added that it "called three bases for assistance and got three different answers to the same question."
- "Our office does not have the expertise to fully justify the differences in the accounts."
- "For fiscal year 1989, supporting documentation does not reflect the amounts reported [in the trial balance]."
- "We could find no justification for the amount reported."



Base-level accounting personnel acknowledged that reported account balances could not be supported or that the base did not have the expertise to analyze the accounts for accuracy. Base-level accounting personnel clearly need additional training to prepare and analyze the general ledger accounts.

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## **Inaccurate Reporting of Ammunition Inventory Balances**

The Air Force is implementing the new Combat Ammunition System which reports the amounts of ammunition inventories at Air Force bases. The system does not, however, transfer the dollar amounts of ammunition inventory into the base-level general ledger system. During our fiscal year 1989 work, we determined that two of the bases we visited had converted to the new ammunition system. Because the inventory balance in the new ammunition system was not reported in the base-level general ledger accounting systems, ammunition inventories at the two bases were understated by \$115.7 million in 1989. The Air Force was aware of the need for an interface between these systems and was working on the problem at the time we completed field work.

According to personnel at the Combat Ammunition System Project Office, Air Force Standard Systems Center, approximately 20 bases had converted to the new system as of February 1990. In December 1990 Air Force officials stated that an interface between the ammunition system and the general ledger system had been developed subsequent to our review.

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## **Conclusions**

Financial information must be constantly analyzed to ensure its validity. Our analysis of selected accounts revealed that Air Force officials allowed inaccurate data, such as negative balances in inventory accounts, to remain in accounting records without investigation. These data were ultimately included in agency financial statements. Further, problems in transferring accounting data between systems and the lack of adherence to accounting procedures during the processing, compilation, and reporting of accounting data resulted in inaccurate financial reports. Because GAFS reported inaccurate and unreliable financial data, major commands are receiving and passing on inaccurate reports, making it difficult for the Air Force to prepare accurate consolidated financial statements and Treasury reports.

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## **Recommendations**

We recommend that the Assistant Secretary of the Air Force, Financial Management and Comptroller, ensure that

- accounting and finance personnel at bases and major commands are properly trained to detect, analyze, and correct erroneous account balances;
- account analysis is performed routinely, accounts are corrected accordingly, and documentation is maintained for accounting purposes; and
- inventory in the Combat Ammunition System is reported in the general ledger.

# Internal Control Weaknesses Preclude Effective Financial Management and Accountability of Assets

Weaknesses in basic internal controls preclude the Air Force from effectively managing its resources and safeguarding its assets. As of September 30, 1989, the Air Force reported at bases worldwide (1) real property valued at about \$31.6 billion, (2) equipment valued at about \$26.3 billion, and (3) inventories valued at about \$23.5 billion (excluding inventory at the five Air Logistics Centers). During our audit, we found the following internal control weaknesses related to these assets:

- construction in progress was not consistently and accurately recorded,
- reports of discrepancy for goods received were not produced and followed up on in a timely manner,
- equipment items were not always issued to authorized personnel or within authorized quantities, and
- personnel files were not regularly matched with payroll files to detect irregularities and preclude improper payments.

Effective financial management requires strong systems of internal control to help ensure the integrity and reliability of financial information, to safeguard assets, and to promote conformity with proper operating procedures. In the absence of good internal controls, assets such as inventories and equipment cannot be properly managed.

## Real Property Transactions Improperly Recorded

Air Force real property balances, including land, buildings, and other facilities, were misstated as a result of weak internal controls and inconsistent and improper accounting practices. Air Force bases record real property in general ledger property accounts based on detailed records maintained by base civil engineers. We examined those records at 16 bases and physically inspected the 10 facilities at each base having the highest valuations. Nine of the 16 bases recorded construction in progress inaccurately and/or did not record real property transactions in a timely manner. Accurately stated balances help to ensure accountability and provide managers with data needed to project cost-based budgets for base-level activities.

## Construction in Progress Transactions Inaccurately Recorded

Air Force Regulation 177-101 requires that the cost of ongoing minor construction be recorded in the construction in progress account and, when completed, removed from the account and either expensed or capitalized. Four bases did not remove the cost of completed work from the construction in progress account as required. The reasons given varied from workload problems to misunderstanding the regulations and required accounting procedures. For example, the Homestead AFB real

property officer stated that she had not removed all completed minor construction work orders from the construction in progress account for about 15 years because she was not aware of the requirement. This caused a \$283 million overstatement in the account.

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### **Untimely Processing of Real Property Transactions**

For completed work orders, Air Force bases are required to exclude repair and maintenance expenses from the cost of permanent improvements, which should be capitalized in the real property accounts. Four bases did not analyze and record completed work orders in a timely manner. Again, reasons given ranged from workload problems to not fully understanding accounting procedures and entries involved.

DOD Manual 7220.9-M, chapter 36, requires that the cost of a newly constructed facility be recorded when a base accepts accountability for the completed facility. In September 1987, Lackland AFB prematurely recorded eight facilities in its buildings account at an estimated completion cost of \$27 million. However, the Army Corps of Engineers, which was responsible for the construction, did not complete and transfer the facilities until 1989. During this time, both the Corps of Engineers and Lackland AFB reported the assets as real property even though only the Corps of Engineers should have done so. Lackland AFB should have reported an asset, such as advance of funds for construction, rather than real property.

In contrast, the Homestead AFB real property office had not classified or recorded completed work orders for 3 years because, according to the base real property chief, the real property office was understaffed. As of September 30, 1989, the unrecorded work orders caused a \$6.7 million understatement to the real property account.

As a result of these problems, the real property financial information that top management or the Congress uses to analyze Air Force trends is unreliable. For example, estimates of base closure costs would be erroneous if real property accounts were used as source data.

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### **Inventory and Equipment Internal Controls Are Weak**

Base-level activities did not always properly receive, issue, and account for equipment and inventory items. We found that (1) follow-up listings were not generated when quantities of items received did not match quantities ordered, (2) equipment was issued to unauthorized persons, and (3) equipment was issued to units in excess of authorized amounts.

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**Reports of Shipping  
Receipt Discrepancies Not  
Prepared**

Receiving activities are required to prepare a report of discrepancy when they identify a difference between the quantity of items ordered and the quantity received. The report (1) notifies the responsible shipping activity, such as a contractor, that a discrepancy exists and (2) serves as supporting documentation for inventory accounting and financial adjustments. Air Force regulations require that this report be filed in a timely manner. Air Force Manual 67-1 also requires follow-up action in any case for which goods are billed but not received. Supply personnel are to prepare reports of discrepancy for cases that involve more than \$100 worth of goods. Failure to prepare and follow up on discrepancy reports in a timely manner may cause a base to pay for items it has not received.

Computer listings showing the need to follow up on discrepant shipments were not prepared at 3 of 17 bases tested. At the 14 bases which were preparing the follow-up listings, only 5 consistently prepared the reports of discrepancy. The required reports of discrepancy were not produced in 45 of 157 instances tested. At Andrews AFB, for example, one of our test receipts was missing 55 items valued at \$3,431. The base was denied credit for the items because a report of discrepancy was not processed within allowed time frames. At Lackland AFB, another of our test items was paid for but never received. However, because the base properly prepared, processed, and resolved the report of discrepancy, it obtained a \$12,982 credit from the supplier. The reasons given for the failure to produce reports of discrepancy varied widely, including confusion about which personnel were responsible for preparing these reports, inadequate training, and a lack of management monitoring of this function.

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**Equipment Issued to  
Unauthorized Personnel**

Base personnel do not always ensure that equipment is issued only to authorized equipment custodians. Air Force Manual 67-1 requires that equipment items only be issued to equipment custodians, their designated alternates, or the unit commander. Of a sample of 523 equipment issues at 17 bases, 103 had been issued to unauthorized personnel. Issues to unauthorized personnel diminish control and accountability over resources. Base-level officials attributed this condition to a supply discipline problem that needs improvement.

To determine how well the Air Force is accounting for equipment items, we made physical observations of randomly selected items valued at \$119.9 million. We could not locate over \$1.9 million worth of items which were in base inventory records, and we found over \$480,000

worth of items that were not recorded in inventory records. These irregularities indicate a continuing need for management diligence and oversight to ensure inventory accountability.

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### **Unauthorized Equipment Issues Made**

Bases do not always control requests to ensure that only authorized equipment is issued and that the equipment is within authorized quantities. A table of allowances establishes the types and quantities of equipment that units are permitted to request and hold. For example, the civilian personnel office is not authorized to request hand tools needed to work on vehicles. Equipment management office personnel are required to check the table of allowances to determine if units are permitted to receive the types and quantities of equipment items requested.

We took a sample of 542 issue transactions at 17 bases. Our tests revealed 20 issues of unauthorized equipment and 35 issues of equipment in quantities in excess of authorized amounts. For example, Langley AFB issued two \$584 cable assemblies to an aircraft maintenance unit when the applicable table of allowance authorized the unit to have only one assembly. Issues in excess of authorized amounts undermine accountability and can lead to wasteful expenditures for replacement items. We attribute this problem to a lack of discipline in complying with proper screening and control procedures.

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### **Lost Accountability Over Equipment and Inventory Items**

At the end of fiscal year 1989, inventory (excluding inventory at the five Air Logistics Centers) accounted for \$23.5 billion of total assets for all Air Force bases. As stated above, we found internal control weaknesses involving accountability for equipment and inventory. Additionally, we found that some equipment was not tagged with the identification labels required for inventory purposes. Reasons for this problem included the misinterpretation of regulations and labels that would not stick to equipment. We took a physical count of a sample of 4,186 supply items and 4,230 equipment items shown on inventory records at 17 bases. Discrepancies existed between the balances on Air Force records and the quantities on hand, as shown in table 3.1.

**Table 3.1: Discrepancies Between Sample of Reported Air Force Inventory at 17 Bases and GAO Physical Counts**

Source of inventory data	Supplies		Equipment		Total	
	Quantity	Value	Quantity	Value	Quantity	Value
Air Force records	1,481,006	\$39,998,085	20,196	\$79,953,064	1,501,202	\$119,951,149
Overage per GAO physical count	261	\$200,231	129	\$286,140	390	\$486,371
Underage per GAO physical count	-4,869	\$-740,736	-1,951	\$-1,245,371	-6,820	\$-1,986,107

Although we believe these errors are not materially significant, we identified over \$1.9 million worth of items in the inventory records that we could not locate. One of these items was a word processing system valued at \$19,576. Additionally, we found over \$480,000 worth of items which did not appear in base inventory records. These included four plotting tables, valued at \$9,559 each.

## Controls Inadequate to Detect Payroll Irregularities

Reconciliations of civilian payroll and personnel master records were not performed at four bases for a variety of reasons, including heavy workload and computer system problems. Air Force Regulation 177-104 and Air Force Manual 30-130 require that civilian payroll and personnel data be periodically compared and reconciled to detect overpayments and payments to fictitious employees. The personnel office approves all hiring, pay changes, and terminations before the payroll system issues a paycheck. Accordingly, if the employee's pay rate authorized by the personnel office is less than that of the payroll office, there may be an overpayment. If the payroll office records show a paycheck issued to an employee who is not in the active personnel records, then there may be a payment to a fictitious or terminated employee.

At two bases, the match had not been made in over a year. At our request, these bases each ran the matches, revealing 127 errors at the first base and 466 errors at the second base. The 127 mismatches involved minor discrepancies, such as differences in health insurance coverage codes, that were easily resolved.

Of the 466 mismatches at the other base, 360 were minor, but 106 involved employee names on payroll records that were not on personnel system records. This occurred in part, we found, because various units sent paperwork on new hires directly to the payroll office, rather than

routing them through the personnel department for approval, thereby bypassing a major internal control involving separation of duties. These discrepancies were analyzed to ensure that only duly authorized amounts and individuals had been paid, and no errors or irregularities were noted.

A third base had not run the match in over a year but was in the process of comparing all payroll records to personnel records as part of a conversion to a new pay system. Because of the new system conversion, we did not ask the base to run the payroll to personnel record match.

The fourth base ran the match at our request and found that one mismatch involved overpayment of an employee. Base officials took action to recover the overpayment, which amounted to \$5,700. This undetected overpayment demonstrates the need to comply with the required internal control procedure to match payroll and personnel records. Continued failure to do so could allow payroll fraud or abuse to go undetected.

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## **Conclusions**

Effective control over agency resources and conformity with proper financial management procedures require that strong systems of internal controls be in place and operating. Internal control procedures are intended to achieve and maintain a sound internal control environment to safeguard assets, ensure the integrity and reliability of financial information, and promote conformity with proper accounting procedures.

We identified a number of internal control procedures that were not working properly at the 17 bases we visited. The Air Force system controls we tested at base level had weaknesses in accounting for real property, inventories, and equipment and in reconciling payroll transactions. In many cases, these weaknesses resulted from noncompliance with Air Force regulations.

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## **Recommendations**

We recommend that the Assistant Secretary of the Air Force, Financial Management and Comptroller, ensure that

- construction in progress is recorded consistently and accurately,
- reports of discrepancy are produced and followed up on in a timely manner,



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**Chapter 3**  
**Internal Control Weaknesses Preclude**  
**Effective Financial Management and**  
**Accountability of Assets**

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- equipment is issued only to authorized personnel and only in authorized quantities,
- equipment is tagged and identified for inventory accountability, and
- personnel files are matched and reconciled with employee payroll files at least monthly.